



The President's Daily Brief

September 26, 1974

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FOR THE PRESIDENT ONLY

September 26, 1974

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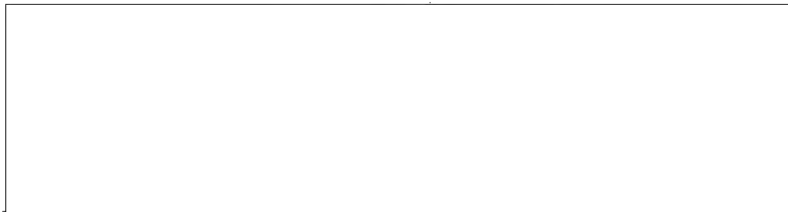
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LEBANON

Prime Minister Sulh stepped down yesterday after 14 months in office when several cabinet ministers critical of the government's handling of internal security and economic problems threatened to withdraw.

President Franjiyah could ask Sulh to add some new faces and simply reorganize the cabinet, but the President appears more likely to designate another political leader to assemble a new group. In either case it could take several weeks to come up with a slate acceptable to the powerful confessional and political blocs represented in parliament. Franjiyah, a Christian, will follow Lebanese convention and appoint a Sunni Muslim prime minister.

The President may believe that Lebanon's problems demand a more assertive leader than the lackluster Sulh, but any candidate would hold to the same basically moderate policies espoused by Sulh. A group of powerful members of parliament agreed on Tuesday to a program calling for the appointment of a "strong" prime minister capable of instituting widespread reforms. They also want a clear-cut defense policy.

Palestinian leaders have played no direct role in the present situation. Regular violations of security restrictions by fedayeen forces, however, have led to periodic Israeli violations of Lebanese territory, demonstrated the government's inability to protect residents of southern Lebanon, and stimulated criticism of the central government by residents of the south.

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WEST GERMANY

Chancellor Schmidt hopes to announce soon a package deal with East Germany that would show further progress toward regularizing relations. Schmidt probably hopes that the deal can be announced in time to assist the coalition parties in two important state elections late next month. The East Germans' apparent readiness to make some concessions shows that they are not averse to helping Schmidt in this way.

There have been several well-publicized meetings this month between East and West German officials, but the package deal has been negotiated in secret.

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CEMA-EC

The Soviets have invited EC Commission President Ortolli to Moscow in a new move toward establishing relations between the EC and the Soviet-dominated Council for Mutual Economic Assistance. CEMA Executive Secretary Fadeyev said his organization is interested in scientific, technical, and economic cooperation with the EC.

The invitation follows a number of informal soundings on official contacts between the EC and the East European group during the past two and one-half years. Brezhnev first acknowledged the "reality" of the EC in March 1972.

It is likely the Soviets want the EC to recognize CEMA as a supranational entity. This would enhance the status of CEMA and give Moscow firmer control over the economies of its East European allies, particularly in the sensitive area of their relations with the West.

The EC is reluctant to concede that CEMA is in any real sense an analogous organization or that the CEMA Secretariat has any of the independent authority possessed by the EC Commission. The Commission has an interest in gaining jurisdiction over the economic dealings of EC countries with the CEMA countries, but it would prefer to deal with individual CEMA countries. The Commission, nevertheless, eventually may have to agree to some kind of intermediary role for CEMA.

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AUSTRALIA - NEW ZEALAND

Canberra and Wellington have devalued their currencies in the face of foreign exchange deficits.

Australia's 12-percent devaluation is aimed at holding down imports and avoiding further increases in unemployment. In the fiscal year ending in June, the country's balance of payments shifted from a massive surplus to a \$1-billion deficit, the first in 7 years and the largest in 22 years.

The reversal occurred in part because of the rapid growth of imports; this in turn resulted from higher commodity prices as well as from a deliberate policy of liberalizing imports. Because of labor complaints about rising unemployment, Canberra already is considering placing quantitative restrictions on auto imports and increasing controls over textile purchases.

Australia's international financial position remains relatively strong, however. The trade deficit is still fairly moderate. Foreign exchange reserves, although 20 percent below last year's peak, amount to some \$5.5 billion. In addition to the fast growth of imports, the deficit reflects falling world market prices for some key Australian exports, especially beef and wool.

New Zealand, which devalued its currency 9 percent, has more pressing trade and payments problems. While its imports are rising rapidly, foreign demand for its wool, meat, and other primary products is extremely weak. Official foreign exchange reserves at the end of August dropped to \$675 million, about half the level of a year ago. To help avoid a serious financial bind, Wellington is seeking large overseas loans, including loans from oil-exporting countries. Government officials, for example, are negotiating for a \$140-million loan from Iran.

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NOTES

Egypt: President Sadat formally relinquished the post of prime minister to Muhammad Hijazi yesterday. Hijazi, formerly the first deputy prime minister, has been serving as prime minister in all but name for some months.

Ethiopia: High unemployment and threats by the military to have strikers fired apparently intimidated the workers, and the general strike called yesterday fizzled. The military still holds the three labor leaders whose arrest precipitated the strike call. In another development, the official government newspaper has attacked Crown Prince Asfa Wossen, who recently indicated he is considering the military's invitation for him to return to Ethiopia as a figurehead monarch. Such attacks, appearing with the obvious approval of the military, suggest that the military does not favor his return to Ethiopia, even as a figurehead, and may be preparing to declare a republic.

Zaire-Portugal-Angola:

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Brazil: In his speech at the UN, Foreign Minister Silveira repeated Brazil's call for Israeli withdrawal from occupied territories, and for a settlement "attending to the rights" of the Palestinian people. Silveira thus underscored Brazilian determination to improve relations with Arab oil suppliers, but avoided going so far as to call for establishment of a separate Palestinian state. Just last week there were hints that he was planning to take that step as well. Those Brazilian government and military officials who distrust Silveira and who think his recent overtures to the Arabs have been too effusive may have been at least partially responsible for restraining him.

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CHILE

The military junta has moved into its second year with its reservoir of popular goodwill basically intact. It remains determined to depoliticize the country's institutions before returning them to civilian hands. The prospect is for at least several more years of military government. Junta President Pinochet appears to have assumed a mediating role between hard-line conservatives and moderate advocates of a populist-style government.

There have been some limited moves toward less austere economic policies and less iron-fisted attitudes. In a speech on September 11 marking the anniversary of the military take-over, Pinochet announced that the government was moving to arrest the decline in real wages that has brought hardship to workers.

A new policy calls for automatic quarterly wage readjustments to keep pace with the cost of living. This effort to ease the economic squeeze on wage and salary earners appears to be a victory for moderate officers who have been urging that political factors be given more weight in economic policy-making.

There recently has been some progress in the fight against inflation. The inflation rate in July and August was somewhat below the monthly average for the first half of 1974. If this lower rate is maintained, inflation for the year will total about 350 percent, compared with the 710 percent registered in 1973.

The overall economic outlook, however, is clouded by falling world copper prices. Production will increase next year, but if prices remain low export earnings will drop. Meanwhile, storm damage and delayed plantings this June will mean a continued need for a million tons of imported wheat, and the price of imported fuel is likely to remain high.

Human Rights

Pinochet's anniversary speech brought a major announcement on human rights. He declared that the government was ready to release many political prisoners and challenged Cuba and the Soviet Union to do likewise. Not expecting a response from those countries, Chile already is moving to free some prisoners.

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Appreciation of the negative impact the government's repressive image has had, especially on its ability to purchase arms from traditional suppliers, has been a key factor in prompting the junta to take steps to curb abuses of human rights.

Some Chileans remain implacably opposed to the military government. The major leftist groups, which suffered most from the downfall of Allende, are trying to reorganize, but divisions similar to those that impeded united leftist action during the Allende years complicate an already difficult underground existence.

Most leftists inside Chile believe that armed violence would be counterproductive, but extremists do not accept this view and weapons remain available. Any plans for action probably have been set back, however, by government successes in its continuing campaign against potential terrorists.

The second year of military rule could bring further movement toward a more humanistic military rule. The trend in this direction is at best wavering, however, and it could be turned around by a variety of possible events:

- economic reverses and an erosion in popular support;
- leftist violence;
- death or incapacity of Pinochet and succession (under the statute of the junta) of Admiral Merino, or a struggle over the junta presidency;
- a confrontation with Peru.

Foreign Affairs

Peru's military buildup and desire to recover territory it lost to Chile in the War of the Pacific (1879-1883) remain the junta's number one foreign policy problem. There is much suspicion between the two countries, despite their public protestations that relations have never been better. Chile's main concern is its inability to match Peru's recent arms acquisitions--especially Soviet tanks--with modern arms of its own.

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The junta realizes it can ill afford a serious deterioration in relations with the US, and two of the three copper expropriation cases left over from the Allende years already have been amicably settled, while direct negotiations are in progress on the third. Nevertheless, Chile's effort to avoid international isolation may lead it in some instances to side with the nonaligned nations against the "super-powers," especially on economic issues.

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